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The Effect of Profitability, Sales Growth and Financial Distress on Tax Avoidance with Firm Size as Moderating Variable

(Empirical Study of Infrastructure, Utilities and Transportation Companies Listed on the IDX for the 2018-2021 Period)

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Abstract: This study aims to analyze the effect of profitability, sales growth, and financial distress on tax avoidance with firm size as a moderating variable**.**This type of research uses quantitative methods. The population in this study are infrastructure, utility and transportation sector companies listed on the Indonesia Stock Exchange in 2018-2021. The data analysis technique used in this study was multiple linear regression analysis and moderate regression analysis (MRA) with the help of the SPSS version 25 programs.Samples were taken as many as 24 companies with a total of 96 data during four years of observation using purposive sampling method.The results showed that profitability had a negative effect on tax avoidance, while sales growth and financial distress had no effect on tax avoidance. Firm size is able to streng then the negative effect of profitability on tax avoidance, company size is able to weaken the effect of sales growth on tax avoidance and company size is unable to moderate the effect of financial distress on tax avoidance.
Keywords: Profitability, sales growth, financial distress, tax avoidance, firm size.

1. Introductions

Taxes are obligations owed by the state to individuals or legal entities, these contributions are a source of state revenue to finance government spending and other state needs. The government wants to continue to increase or optimize state revenues through taxes in order to finance state administration, while most taxpayers try to pay taxes to a minimum because paying taxes will reduce corporate income or profits(Dharma & Ardiana, 2016).The problem of tax avoidance is a complex and unique one.On the one hand, tax avoidance is permissible, but on the other hand, this is undesirable. This tax avoidance is said not to conflict with tax laws because it is considered that practices related to tax avoidance take advantage of loopholes in the tax law which will affect state revenue from the tax sector (Mahdiana & Amin, 2020).

Tax Revenue for 2018-2021 (in Trillion Rupiah)

Percentage of Realized Tax Revenue (in Trillion Rupiah)				
Year	2018	2019	2020	2021
Target	1.424,00	1.577,56	1.198,82	1.229,58
Realization	1.313,32	1.332,66	1.072,11	1.278,65
Achievement	92,23%	84,48%	89,43%	103,99%

Source: Annual Report ofDirektorate General of Taxes

Based on the table above, the realization of tax revenue each year is not in accordance with the expected tax revenue and target, this shows that tax revenue in Indonesia is still not optimal. The tax revenue target that was not achieved was because one of the reasons was the existence of tax evasion by the company. This tax avoidance usually occurs because basically the shareholders in each company want to get high investment returns, by reducing the amount of tax payable, so that the company can increase profits (Prabowo & Sahlan, 2021).

In Indonesia, there is a phenomenon of tax evasion in the property and real estate sector in Indonesia. Based on preliminary research Direktorate General of Taxes, there is a potential loss of tax revenue due to non-reporting of actual transactions on land/buildings including real estate properties and apartments. This is because the tax paid using the sale value of the taxable object is not based on a real transaction. Meanwhile, the potential for tax revenue from the property and real estate sector comes from the provisions of final PPh 4 paragraph 2, namely income received by the seller (developer) for carrying out a land/building sale and purchase transaction of 5% and added value. Tax (VAT) for transactions of Taxable Goods in the form of land/buildings that are not in the category of very simple houses is 10%.Meanwhile, the tax levied by local governments in property transactions is a 5% fee for the acquisition of land and building rights (Detik Finance, 2019). This phenomenon states that tax avoidance really exists and most companies engage in tax planning extensively to reduce their income tax because the cost of income tax will reduce their profits.

The existence of non-compliance can cause taxpayers to do tax evasion. Oktaviyani & Munandar (2017)found that tax avoidance is a strategy or technique that is legal and safe for taxpayers because it does not conflict with tax provisions. The company's goal of tax avoidance is to reduce the amount of tax that must be paid by using transactions that cause a reduction in the tax burden.

Based on empirical evidence from research on the topic of tax avoidance. There are several factors that encourage companies to take tax avoidance. Research conductedNingsih & Noviari, (2022)states that there are several factors that can affect tax avoidance such as profitability, financial distress and sales growth. Then according to researchDharma & Ardiana, (2016)factors such as leverage, fixed asset intensity and firm size can influence tax avoidance.

This research is a development of study Ningsih & Noviari (2022). The first novelty of this study is the addition of a moderating variable, namely firm size, to prove the ability to carry out economic processes and the stability of a company. The novelty of these two studies was conducted on infrastructure, utility and transportation sector companies listed on the Indonesia Stock Exchange for the 2018-2021 period. Companies in this sector have a very low tax contribution because there are indications of tax evasion and different observation times, namely 2014-2018(Handayani et al., 2021). To achieve this goal, a good level of tax avoidance is required.

2. Literature Review and Hypothesis

2.1 Agency Theory

Agency theory was first described by Jensen and Meckling(1976) stated that the agency relationship is like in an environment where one or more people use other people to work on behalf of the principal which includes delegating authority to the agent to make decisions.However, the practice of tax avoidance in agency theory is believed to have different interests between the agent and the principal, because each party tries to achieve the interests of certain parties(Ambarukmi & Diana, 2017).

This difference in interests can make managers have the motivation to maximize the utility they have by involving various policies, which impose costs on the company, so that it can harm the company. Conflicts between agents and principals can result in agency expenses which are costs that arise to align the goals of management with company owners(Wardani et al., 2022). This study shows that there are differences in interests between principals and agents that can affect company performance, one of which is the company's provisions regarding taxes. Managers as agents have an interest in obtaining maximum compensation with high returns for their performance, while shareholders as principals want to reduce taxes with low profits(Nugraha & Mulyani, 2019).

2.2 Tax avoidance

Tax avoidance is a tax avoidance effort that is carried out legally and safely for taxpayers because it does not conflict with tax provisions, where the methods and techniques used tend to take advantage of the weaknesses contained in the tax laws and regulations themselves, to minimize compliance costs that must be borne by Taxpayers in fulfilling their tax obligations (Pohan, 2018). Tax avoidance is closely related to companies trying to maximize corporate profits. Tax is a profit deduction element that is detrimental to every company, but on the other hand taxes are a major contribution to the State(Hidayat, 2018).

2.3 Profitability

Profitability is an indicator of management performance in managing the company's assets indicated by the profit generated or obtained by the company. Profitability describes the company's ability to obtain a profit that can increase the quality of the company. Profitability in net form is allocated for the welfare of shareholders in the form of paying dividends and retained earnings. So if the high profitability ratios indicate the existence of efficiency carried out by the management.With increasing profits will result in increased company profitability(Putri & Putra, 2017). Companies that have high profitability will generate high profits.Based on this, there is a tendency for companies to minimize their tax payments by reducing the profits earned by the company with the aim of minimizing their tax payments. Thus, the higher the company's profitability, the higher the tendency of the company to take tax avoidance actions (Yustrianthe & Fatniasih, 2021). Research conducted by Ryzki & Fuadi(2019), Suyanto & Kurniawati(2022), Hidayat(2018), Andini et al.(2022)shows that profitability affects tax avoidance.Based on this description, this research shows the following hypothesis:

H_1: Profitability affects tax avoidance

2.4 Sales growth

Sales growth can be interpreted as a parameter used to measure sales performance in increasing company profits during a certain period(Hidayat, 2018).According to Deitiana (2011) in Sales growth reflects the successful manifestation of past investments and can be used as a prediction of future growth. Sales growth is also an indicator of demand and competitiveness of companies in an industry. The growth rate of a company will affect the ability to maintain profits in future opportunities(Masrullah et al., 2018).Sales growth can be used to predict the company's profit. The higher the sales growth of a company, the smaller the CETR will be, the smaller the CETR value indicates the high level of tax avoidance of a company. This is with the existence of a relatively large level of sales so that there is an increase in company profits which indicates the leadership of the company has tried to maximize the value of the company which is the duty of an agent to the principal in agency theory(Ryzki & Fuadi, 2019).Research conducted by Ryzki & Fuadi (2019), Hidayat, (2018), Pratiwi et al. (2021), Nugraha & Mulyani (2019), Honggo & Marlinah (2019)shows that sales growth has an effect on tax avoidance. Based on this description, this research shows the following hypothesis:

H_2:Sales growth affects tax avoidance.

2.5 Financial distress

Financial distress is a condition where a company is experiencing financial difficulties so that the company has high debt, but is still able to carry out its operational activities. This condition is usually characterized by a decrease in product quality which can result in a financial decline. According to Amah et al.(2022)explained that the occurrence of financial distress in a company will result in a decrease in the value of the company. Thus, investors will withdraw funds from shares invested in companies that are predicted to experience financial distress. Companies that are in a state of bankruptcy will try to reduce the company's tax burden and company fund expenditures to overcome ongoing financial problems according to Rani (2017) in(Amah et al., 2022) .

High sales growth will enable companies to generate high profits, high profits will result in a high tax burden borne by companies, so companies will tend to look for ways to reduce or minimize the taxes they bear. This resulted in efforts to take corporate tax avoidance measures. The higher the sales growth, the higher the company's efforts to avoid taxes(Yustrianthe & Fatniasih, 2021).Research conducted by Nuryeni & Hidayati (2021), Pratiwi et al (2021), Meilia & Adnan (2017), Juanda (2023)shows that financial distress has an effect on tax avoidance. Based on this description, this research shows the following hypothesis:

H_3: Financial distress affectstax avoidance.

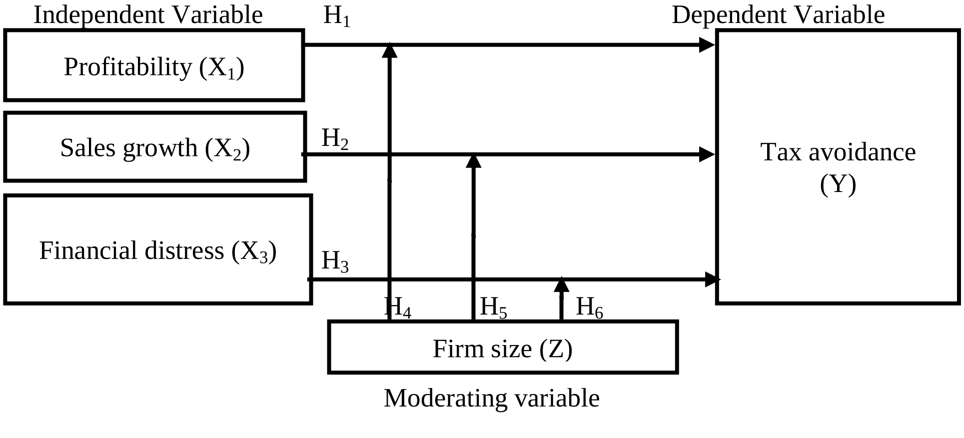
2.6 Firm size

Firm size is a figure of the size of the company's assets that can be used as the firm size. The bigger the company, the higher the required funds, as a result the company tends to want large profits.Large profits can cause high taxes to be paid.According toAsri & Suardana (2016)Firm size is the size of the company as measured by the total value of the company's assets.Asset value is used as a proxy for the firm size variable because a large company is always identified with a large asset value, so it can influence a decision on the company.

Based on this description, this research shows the following hypothesis:

H_4: Firm size is able to moderate the effect of profitability, sales growth and financial distress on tax avoidance.

2.7 Research Framework



3. Research Methodology

3.1 Population and Sample

Table 2: Research Sample Selection Process

No.	Criteria	Amount
1.	Companies that have consistently been listed on the Indonesia Stock Exchange for four consecutive years in the 2018-2021 period.	75
2.	The company publishes an annual report (annual report) or a complete financial report for 2018-2021 on the company's website and the Indonesia Stock Exchange.	(4)
3.	The company has information related to the variables used in the research	(47)
	The number of sample companies that meet the criteria	24
	Total sample for 4 years observation period	96
	Data outliers	(7)
	The total sample used in the study	89

Source: Data process, 2023

Based on the research sample selection process in Table 2.The population of this research is 75 data and based on the purposive sampling method, 24 samples of company data are obtained. So that in four years of observation, namely 2018-2021, a total sample of 96 companies was obtained and there were 7 outliers so that the total sample that could be used in this study was 89 companies.This research is a quantitative research. The data used is secondary data in the form of financial reports obtained from companies in the infrastructure, utilities and transportation sectors listed on the Indonesia Stock Exchange in 2018-2021. The data analysis technique used in this study is multiple linear regression analysis and moderate regression analysis (MRA).

Table 3: Operational Variable Measurement

Variable	Indicator	Source
Tax avoidance	$CETR = \frac{\text{Tax expense}}{\text{Profit before tax}}$	Honggo & Marlinah (2019)
Profitability	$ROA = \frac{\text{Net profit}}{\text{Total Assets}}$	Mahdiana & Amin, (2020)
Sales growth	$Sales\ Growth = \frac{\text{Pt} - (\text{Pt} - 1)}{\text{Pt} - 1}$ Information: Pt : Current year sales Pt-1 : Last year's sales	Ryzki & Fuadi(2019)
Financial distress	Z-*Score* = 1,2X1 + 1,4X2 + 3,3X3 + 0,6X4 + 1,0X5 Information: X1 = Working capital/Total Assets X2 = Retained earning/Total Assets X3 = Profit before tax/Total Assets X4 = Number of shares x Price per share / Total Debt X5 = Sale /Total Assets	Ningsih & Noviari (2022)
Firm size	$Firm\ Size = Log\ (Total\ Assets)$	Putra & Jati (2018)

3.2 Data Analysis Technique

This study uses data analysis techniques which include descriptive statistics, classical assumption tests and hypothesis testing. This analysis is used to test how much influence the independent variables have on the dependent variable and the moderating variable will strengthen or weaken the relationship between the independent and dependent variables.This study uses multiple linear regression equations which are illustrated by the following equation:

$$\boxed{CETR = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_1.X_4 + \beta_5 X_2.X_4 + \beta_6 X_3.X_4 + e}$$

Information:

Y	= Tax avoidance
α	= Constant
β1,2,3,4,5,6	= Regression coefficient
X_1	= Profitability
X_2	= Sales growth
X_3	= Financial distress
X_4	= Firm size
e	= Error

4. Result and Discussion

4.1 Descriptive Statistical Analysis

Table 4: Descriptive Analysis Results

	N	Minimum	Maximum	Mean	Std. Deviation
Profitability	89	0,00	0,15	0,0514	0,03630
Sales growth	89	-0,56	1,06	0,0866	0,25982
Financial distress	89	0,23	8,30	2,4545	1,94953
Tax avoidance	89	0,00	0,76	0,2073	0,13596
Firm Size	89	24,68	33,26	28,8593	1,86104
Valid N (listwise)	89				

Source: Data process, 2023

Based on the descriptive statistical test in the table above, it shows that the number of samples (N) is 89 company data during 2018-2021.Profitability with an average value greater than the standard deviation value, means that the distribution of company value data is varied and has a relatively good level of data deviation. Financial distress during the 2018-2021 period is more dominant in the gray zone where there is a chance of bankruptcy but the chance of being saved and the chance of going bankrupt are the same.Tax avoidance seen from the average shows that on average the tax avoidance efforts of the sample companies are low because the average value is 0.2073 or 20.73% which is less than the 25% tax avoidance rate limit. Firm size with a standard deviation value that is smaller than the average value indicates that the distribution of company value data is good, where the lower the standard deviation value, the closer to the average.

4.2 Classic Assumption Test

Table 5: Normality Test Results

Information	*Unstandardized Residual*	Information
Kolmogorov-Smirnov Z	0,081	Distributed Data
Asymp. Sig. (2-tailed)	0,200	Normally

Source: Data process, 2023

Based on the results of the normality test, the Kolmogorov-Smirnov Asymp. Sig. (2-tailed) is 0.200.Based on the normality test requirements, the p value of 0.200 is greater than 0.05 so it can be concluded that the regression equation model in this study has normally distributed data, so that the research model is declared to have met the normality assumptions.

Multicollinearity Test

Table 6: Multicollinearity Test

Variable	Collinearity Statistics		Information
	Tolerance	VIF	
Profitability	0,881	1,135	There is no multicollinearity
Sales growth	0,958	1,044	There is no multicollinearity
Financial distress	0,860	1,162	There is no multicollinearity

Source: Data process, 2023

Based on the results of the multicollinearity test in Table 6 it is known that the variables profitability, sales growth, and financial distress have a tolerance value of > 0.10 and VIF < 10. Thus it can be concluded that the regression model in this study does not occur multicollinearity between independent variables and the regression model is feasible to use.

Heteroscedasticity Test

Table 7: Heteroscedasticity Test Results

Variable	Sig. (2-tailed)	Information
Profitability	0,244	There is no heteroscedasticity
Sales Growth	0,374	There is no heteroscedasticity
Financial Distress	0,851	There is no heteroscedasticity

Source: Data process, 2023

Based on the results of heteroscedasticity using the Glejser test in the table above, it shows that all independent variables have a significance value of > 0.05 (profitability of 0.244; sales growth of 0.374; financial distress of 0.851.Thus it can be concluded that in the regression model used there is no heteroscedasticity.

Autocorrelation Test

Table 8: Autocorrelation Test Results

Durbin Watson	Information
2.150	There is no autocorrelation

Source: Data process, 2023

Based on the results in the table above, it shows that the Durbin-Waston value is 2.150, in Table DW for k = 4 and n = 89. While the upper limit value (du) is 1.750 where the DW value is between dU < DW < 4-dU (1.750 < 2.150 < 2.250) it can be concluded that there is no autocorrelation.

4.3 Hypothesis Test

Table 9: Multiple Linear Regression Test Results

Variable	Coefficient	t	Sig.
(Constant)	0,271	9,839	0,000
Profitability (x_1)	-1,160	-2,832	0,006
Sales growth (x_2)	-0,040	-0,721	0,473
Financial distress (x_3)	-9,799	-0,013	0,990
F count			3,315
R^2			0,105
Adjusted R^2			0,073
Sig F			0,024

Source: Data process, 2023

Based on the results of the simultaneous test (F test) in the table above, the F_{count} is 3.315 with a significance value of 0.024 <0.05 so it can be concluded that the variables profitability, sales growth, and financial distress simultaneously (together) affect tax avoidance.

Based on the test results of the determinant coefficient (Adjusted R^2) the value of Adjusted R^2 is 0.073 or 7%, which means that the dependent variable can be explained by an independent variable of 7%. In other words, a 7% change in tax avoidance can be explained by profitability, sales growth, and financial distress. While 93% of changes in firm value are influenced by other factors outside the research model.

Based on the test results, the following results were obtained:

1. The effect of profitability on tax avoidance

The first hypothesis is based on the results of the t-test significance test that profitability has a negative effect on tax avoidance. Based on the processing results, it shows that the t_{count} is -2.832 with a Sig. of 0.006 <0.05.So it can be concluded that the profitability variable has a negative effect on tax avoidance. This it can be stated that H_1 is accepted.This is because the amount of the tax burden is calculated based on the income earned by the company. Profitability has a negative effect on tax avoidance, because high profitability further reduces the level of tax avoidance of a company because companies with large profits are able to make tax payments, even with high profits the company can easily make profit arrangements.The results of this study support agency theory with evidence that management is motivated to increase company profits, but avoids increasing the tax burden so that management is motivated to practice tax avoidance.

The results of this study are in line with the results of the study Hidayat (2018), Ryzki & Fuadi (2019), which states that profitability has a negative effect on tax avoidance.Unlike the case with research conducted byPrabowo & Sahlan (2021)found that profitability has a positive effect on tax avoidance because company profitability increases, profits will increase and the amount of tax will be higher, so companies look for loopholes to minimize the company's tax burden by taking tax avoidance measures.

2. The effect of sales growth on tax avoidance

The second hypothesis based on the results of the t-test significance test states that sales growth has no effect on tax avoidance. Based on the processing results, it shows that the t_{count} is -0.721 with a Sig. of 0.473 > 0.05. So it can be concluded that the sales growth variable has no effect on tax avoidance. Thus it can be stated that H2 is rejected.Based on this, it means that the higher the sales growth of a company, it will not affect the company to take tax avoidance measures. This is because the high or low sales growth rate of a company does not affect the occurrence of tax avoidance. Companies with high sales growth will experience an increase in corporate profits and tax expenses. The high sales growth can attract the attention of the tax authorities in calculating the tax burden borne by the company. Thus, companies tend to be careful in planning tax policies, and cannot do tax evasion. Likewise, when the sales growth rate is low, the company will not carry out tax avoidance because the tax burden has also decreased.

The results of this study are in line with research Yustrianthe & Fatniasih(2021)which states that sales growth has no effect on tax avoidance because increased sales in a company are not always accompanied by increased company profits because the amount of profit is not only influenced by how many sales are generated so it does not affect tax payments.However, the results of this study are not in line with research conducted by(Oktamawati, 2017). This study states that sales growth has a negative effect on tax avoidance, because companies with high sales growth rates mean that they have good performance and profits will increase so that management will make tax savings and will avoid tax avoidance actions.

3. The effect of financial distress ontax avoidance

The third hypothesis based on the results of the t-test significance test states that financial distress has no effect on tax avoidance. Based on the processing results, it shows that t_{count} is -0.013 with a Sig. of 0.990 > 0.05.So it can be concluded that the financial distress variable has no effect on tax avoidance. Thus it can be stated that H_3 is rejected.This can be caused by the tendency that companies that are in a state of financial difficulty will always experience losses so that the need for tax evasion is reduced. This is because companies that lose money are free from the income tax burden and receive compensation facilities for losses in the future.

The results of this study are in line with research conducted byRani(2017). This study states that financial distress has no effect on tax avoidance. However, the results of this study are not in line with the results of the studyPratiwi et al. (2021). This study states that financial distress has a negative effect on tax avoidance because high financial distress conditions will reduce tax avoidance actions in these companies. Financial distress experienced by the company caused by a decrease in the company's economic activity. One of the important aspects of analyzing the financial statements of a company is to predict the continuity or viability of the company. Prediction of continuity is very important for management and company owners to anticipate the possibility of bankruptcy.

Table 10: Test Results Moderate Regression Analysis (MRA)

Variable	Coefficient	t	Sig.
(Constant)	1,374	2,910	0,005
Profitability	-14,792	-3,304	0,001
Sales growth	1,856	2,555	0,012
Financial distress	-0,174	-1,199	0,234
Firm size	-0,038	-2,341	0,022
Profitability x Firm Size	0,465	3,006	0,004
Sales growth x Firm Size	-0,068	-2,601	0,011
Financial distress x Firm Size	0,006	1,178	0,242

Source: Data process, 2023

Based on the test results, the following results were obtained:

1. The effect of profitability on tax avoidance with firm size as a moderating variable

The fourth hypothesis based on the significance test of the moderate regression analysis (MRA) test states that firm size is able to strengthen the effect of profitability on tax avoidance. Based on the processing results show that the t_{count} is 3.006 with a Sig. of 0.004 <0.05. So it can be concluded that firm size is able to strengthen the effect of profitability on tax avoidance. Thus it can be stated that H_4 is accepted.This shows that companies that generate high profitability must have a better ability to obtain assets and profits(Oktamawati, 2017). The larger the firm size, the more the company's operations generate profits, the tax burden also increases.Large companies will find it easier to get profits, so companies that have large profits tend not to take tax avoidance actions and will comply with their tax obligations because of the government's more attention to large companies.

2. The effect of sales growth on tax avoidance with firm size as a moderating variable

The fifth hypothesis based on the significance test of the moderate regression analysis (MRA) test states that firm size is able to weaken the effect of sales growth on tax avoidance. Based on the processing results, it shows that the t_{count} is -2.601 with a Sig. of 0.011 <0.05. So it can be concluded that firm size is able to weaken the effect of sales growth on tax avoidance. Thus it can be stated that H_5 is accepted.Sales growth represents investment success in the past and serves as a reference in predicting future sales growth. When the sales growth rate increases, profits will increase, and the taxes that must be paid will also increase.

3. The effect of financial distress on tax avoidance with firm size as a moderating variable

The sixth hypothesis based on the significance test of the moderate regression analysis (MRA) test states that firm size is not able to moderate the effect of financial distress on tax avoidance. Based on the processing results, it shows that the t_{count} is 1.178 with a Sig. of 0.242 > 0.05. So it can be concluded that firm size is not able to moderate the effect of financial distress on tax avoidance. Thus it can be stated that H_6 is rejected. According toSwandewi & Noviari (2020)when a company is in a fairly large bankruptcy condition, the company will tend to take tax avoidance actions and ignore the audit risk provided by the tax authorities. The impact of financial distress that is influenced by the company will have a significant negative impact on the economy, where an investor and creditor can experience large financial losses (Ghazali et al., 2015). With this incident, companies that experience losses will easily be free from the tax burden and the company will also get compensation facilities for losses that occur in the future.

5. Conclusion

Based on the tests conducted on the research sample using multiple linear regression analysis and moderate regression analysis (MRA), the following conclusions can be drawn:

1. Profitability has a negative effect on tax avoidance in infrastructure, utility and transportation service companies listed on the Indonesia Stock Exchange (IDX) in 2018-2021.
2. Sales growth has no effect on tax avoidance in infrastructure, utility and transportation service companies listed on the Indonesia Stock Exchange (IDX) in 2018-2021.
3. Financial distress has no effect on tax avoidance in infrastructure, utility and transportation service companies listed on the Indonesia Stock Exchange (IDX) in 2018-2021.
4. Firm size is able to strengthen the influence of profitability on tax avoidance in service companies in the infrastructure, utilities and transportation sectors listed on the Indonesia Stock Exchange (IDX) in 2018-2021.
5. Firm size is able to weaken the effect of sales growth on tax avoidance in infrastructure, utility and transportation service companies listed on the Indonesia Stock Exchange (IDX) in 2018-2021.
6. Firm size is unable to moderate the effect of financial distress on tax avoidance in service companies in the infrastructure, utilities and transportation sectors listed on the Indonesia Stock Exchange (IDX) in 2018-2021.

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